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บริษัท เชียงใหม่ฟรอสเฟูดส์ จำกัด (มหาชน)

149/34 ซอยแองโกลพลาซ่า ถนนสุรวงศ์ แขวงสุริยวงศ์ เขตบางรัก กรุงเทพฯ 10500

CHIANGMAI FROZEN FOODS PUBLIC COMPANY LIMITED.

149/34 Soi Anglo Plaza Surawongse Rd., Suriyawongse, Bangrak, Bangkok 10500 Thailand

Tel : (662) 634-0061-4, 238-4091 Fax ; (662) 238-4090

25 February 2019

Subject: Management Discussion and Analysis for the year 2018

To: The President

The Stock Exchange of Thailand

Performance Overview

The overall of Thailand's economy in the year 2018 considered recovering supported by the global economic recovery including major countries in Asia, which backed the growth of export from Thailand. However, the global economic has been pressured by the US-China trade war, the political stability in major countries in Euro Zone such as Brexit, the political risk in Italy, also, the sanction against Iran. Apart from the global economic, Japan economic, which is our vital trading partner, has been expected the slight increase in GDP only 1.1% from the relaxing monetary policy, in addition, the government investment in infrastructure for the coming Olympic 2020.

During 2018, the volatile of exchange rate especially the continuously appreciation of Thai Baht (THB) against U.S. Dollar (USD) as the result from the outstanding growth of US economic, also the US-China trade war contributed to the fluctuation in currency exchanged market. Therefore, USD strongly depreciated against major currencies. The average exchange rate for the year 2018 revealed in the Bank of Thailand indicated 32.31 THB/USD, comparing to 33.94 THB/USD in 2017, considered the appreciation of 4.80%. The appreciation of THB has directly weakening revenue of the Company, in which products majorly sold in USD, considered approximately 98% of the total revenue. Therefore, the sales revenue reveals in the financial statement for the year 2018 of THB 1,265.51 Million, decreasing of 6.80% comparing to THB 1,357.89 Million indicated in 2017. Also, total sales volume of 2018 presented 21,288 Tons, which decreased 2.68% comparing to 21,875 Tons in previous year. Moreover, the increasing cost for several factors of production such as mandatory increase of minimum wages and the increasing of fuel cost from the recovery of global economic has raised the production cost. The company's financial statement has indicated the net profit THB 97.48 Million in the year 2018, equivalent to the decrease of 39.23% considering previous year performance of THB 160.41 Million, while the gross profit margin and net profit margin in 2018 displayed 19.48% and 7.70% respectively which decrease from 23.81% and 11.81% previously shown in 2017

The financial performance has significantly change more than 20%, whereby the Net Profit has decreased 39.23% comparing to the previous year. The major contribution for such change is majorly from the strongly appreciation of THB against USD, added by the decreased of sales volume, and the increasing cost of production from increasing minimum wage and fuel price, and the increasing external cold storage charge due to the increasing



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quantity of agricultural produces as the farming yield has improved beyond expectation. Finally, the net profit has greatly decreased.

The Company has not indicated any non-recurrent transaction in the financial statements for the year 2018.

During the year, the company has not changed the accounting policy, but only the application of accounting standard which is mandatory applied. The mentioned change has not material to the financial statement.

For the year 2019, the global economic expected to gradually growth since the increasing consumption from labor market and the relaxing monetary policy in US. However, such growth has reflected the sign of less synchronized across region amidst the uncertainty of global economic and financial system. There are risks in the intense US-China trade war, the tight monetary policy expected to be implemented by major countries against the policy to continuously increasing interest rate from Fed. The increasing interest would raise the financing cost, while the liquidity of fund is gradually dissolved as countries implementing tight monetary policy. Also, the pressure from global geopolitical such as the difficulties for Brexit execution, the instability of political environment in Italy, and the sanction in Iran from US. Further, Japan is expected to grow at decreasing pace due to the increasing consumption tax from 8% to 10% which would be effective in October 2019. On the other hand, the domestic factor for Thailand to be carefully monitor are the high level of household debt, the tendency to increase interest rate which would increasing the cost of financing, and the uncertainty of national election result which could determine the direction and policy for the future of Thailand. Apart from mention factors, the shortage of labor as the result of the announcement on the new Thai Royal Ordinance on foreign migrant workers has put high pressure on the increasing of labor cost combined with the tendency to mandatory increasing minimum labor wage expected to be announced by April. Another negative threat on the production cost is the oil price which tended to increase due to the growth of global economic. However, the management has aware of theses factor and best attempt to reduce such negative effects. Also, the management has continuously determine the policies and strategies to cope with the dynamic of situations such as the continuous improvement for the selection of seeds and its standard in order to improve cultivating yield and production yield, the strive to achieve the effective energy saving production line, the study of the demand for the products in other country rather than existing trade partner, and the closely monitor for the exchange rate to determine the appropriate use of financial instrument and increase the effectiveness of the hedge against the risk of exchange rate fluctuation.



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Summary of Financial Performance

Revenue Structure

1. Sales Revenue

The Company has sales revenue majorly from the sales of frozen vegetables such as frozen soy beans, frozen green beans, frozen sweet corns and frozen mixed vegetables. The details of sales revenue, according to the financial statement categorized by the geographic is as follows,

Sales Revenue	Value (THB Million)			Increase (decrease) %		
	2016	2017	2018	2016	2017	2018
Export Sales Revenue	1,434.39	1,322.71	1,238.32	2.35	(7.79)	(6.38)
Domestic Sales Revenue	31.11	35.18	27.19	68.25	13.08	(22.71)
Total Sales Revenue	1,465.50	1,357.89	1,265.51	3.21	(7.34)	(6.80)

In 2018, sales revenue indicated totaling THB 1,265.51 Million, of which domestic sales proportion is 2.15% of total sales revenue, slightly decrease from proportion 2.59% comparing to 2017, and the proportion of export sales for the year 2018 is 97.85%, slightly decreased from 97.41% in 2017.

Total sales revenue in 2018 totaling THB 1,265.51 Million decreasing from THB 1,357.89 Million in 2017, equivalent to the decrease of 6.80%. This due to the continuously appreciation of THB against USD which the average exchange rate in 2018 is 32.31 THB/USD comparing to average exchange rate of 33.94 THB/USD, equivalent to the appreciation of 4.80%. In addition, the sales volume has been decrease comparing to the previous year.

2. Other Revenue

In 2018, the company has indicated other revenue which mainly derived from the selling of by-product of THB 12.03 Million which increased from THB 8.57 Million in 2017, equivalent to the increase of 40.50%. Also, the Company has revenue from investment THB 4.17 Million as the return from the investment in fixed income term fund and money market.

Cost of Goods Sold

Cost of goods sold in 2018 presented THB 1,018.94 Million, equivalent to the decrease of 1.51%, comparing to THB 1,034.56 Million in 2017. The major reasons for the decrease is as follows,

- The sales volume has decreased comparing to the previous year. Since by the end of 2016 continuous to beginning of 2017, the domestic produces in Japan has been damage by the extreme cold weather, then the order for the product considered unusual in the previous year. Further, Japan household consumption has slightly stagnant in 2018
- However, the overhead production cost per unit has increased as the increasing cost for the production factors such as increasing minimum wage start from last April, the increasing bunker oil price, and the increasing external cold storage charge due



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to the increasing quantity of agricultural produces as the farming yield has improved beyond expectation, combine with the partial close for maintenance of cold storage.

Selling and Administration Expenses

In 2018, the Company has reported the selling and administration expenses of THB 162.55 Million which slightly decreased from THB 175.07 Million as reported in 2017, equivalent to the decrease of 7.16% which derive from the transportation and export expenses which is the cost for the transportation of finished goods to be delivered at domestic sea port and the custom fee, is decreased due to the decreasing export volume.

Gross Profit Margin and EBIT Margin

The Gross Profit Margin for the Company presented in the financial statement for the year ended 31 December 2018 is 19.48% decrease from 23.81% indicated in previous year, while the EBIT Margin reveal 9.44% decrease from 14.59% comparing to 2017. This is majorly contributed to the appreciation of exchange rate which unfavorable to the sales revenue of the company, while the sales volume is decreased. At the same time, cost of goods has been increased due to the increase minimum labor wage, and the continuously increasing fuel oil price due to global economic growth, combine with the increasing cost of external cold storage charge due to the partial close of cold storage for maintenance while the increasing quantity of agricultural produces as the farming yield has improved beyond expectation. However, the selling and administration expense has slightly decreased due to the lessen transportation activities as the effect of the decreasing export volume.

Net Profit

The Company has indicated net profit in the financial statements in 2018 of THB 97.48 Million, decreased from THB 160.41 Million presented in 2017, equivalent to the decrease of 39.23%. This lead to the decrease of Net Profit Margin from 11.81% to 7.70%. The major contribution to the decrease of net profit derive from the unfavorable exchange rate as THB is continuously appreciated against USD, with the average quarterly exchange rate range fluctuated between 31.54-32.97 THB/USD. Also, the decrease of sales volume is considered affected the Net Profit. Moreover, the production cost has been increased due to the new mandatory minimum labor wage and the increase of fuel oil price. The Company has determined to focus on production cost management including the attempt to improve the quality of seeds and level up its selection standard, increase the production efficiency, improve the cold storage area purposely to improve capacity management and reduce external cold storage charge.



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Summary Table for the Financial Performance

Financial Highlight	Value (THB Million)			Increase (decrease) %		
	2016	2017	2018	2016	2017	2018
Sales Revenue	1,465.50	1,357.89	1,265.51	3.21	(7.34)	(6.80)
Cost of Goods Sold	1,062.17	1,034.56	1,018.94	(1.26)	(2.60)	(1.51)
Gross Profit	403.33	323.33	246.57	17.20	(19.84)	(23.74)
Gain on Exchange Rate	8.32	34.63	19.17	131.06	316.38	(44.64)
Revenue from short term investment	5.23	6.62	4.17	(3.66)	26.56	(36.99)
Other Revenue	8.25	8.57	12.03	27.63	3.87	40.50
Operating Profit	425.13	373.15	281.95	28.95	(12.23)	(24.44)
Selling and administration Expenses	181.28	175.07	162.55	1.81	(3.42)	(7.16)
Earnings Before Interest and Tax	243.85	198.08	119.40	60.82	(18.77)	(39.72)
Net Profit	196.38	160.41	97.48	64.25	(18.32)	(39.23)
Earnings Before Interest, Tax, Depreciation and Amortization	283.10	241.90	163.11	39.82	(14.55)	(32.57)
Cash Flow From Operation	324.74	80.76	(66.08)	79.77	(75.87)	(181.82)
Earnings per share (Baht)	0.52	0.42	0.26			
Book Value per share (Baht)	3.85	3.79	3.74			

Key Financial Ratios

Key Financial Ratios	2016	2017	2018
Current Ratio (Times)	11.78	13.44	12.94
Quick Ratio (Times)	7.98	7.68	5.45
Gross Profit Margin (%)	27.52	23.81	19.48
Operating Profit Margin (%)	16.64	14.59	9.44
Net Profit Margin (%)	13.40	11.81	7.70
Return on Equity (%)	13.94	11.01	6.80
Return on Assets (%)	12.64	10.05	6.22
Debt To Equity Ratio (Times)	0.10	0.09	0.09



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Company's Financial Position

Assets

The Company has total assets according to the financial statements as of 31 December 2018 of THB 1,559.00 Million comparing to THB 1,575.69 Million in the previous year, equivalent to the slightly decrease of 1.06%. The major decrease is from the decrease of cash and cash equivalent and short-term investment in the forms of cash in fix saving account altogether presented THB 312.45 Million in 2018 comparing to THB 556.94 Million in 2017, equivalent to the decrease of 43.90%. The decrease net cash flow from operation derive from decrease of sales revenue as THB has continuously appreciated against USD, at the same time, the Company has increase production activities in 2018 as the farming yield has improved beyond. Therefore, the Company has reported inventory of THB 613.17 Million in 2018, comparing to THB 433.55 Million in 2017.

Trade Receivables in 2018 indicated THB 139.48 Million, increase from THB 80.57 Million presented in 2017, of which THB 70.15 Million is receivable that not yet due for payment, equivalent to 66.73% of total receivables in 2018 which indicated THB 105.13 Million. The Company has policy to reserve for allowance for bad debt for the whole amount on any doubtful receivable, considering financial position of client and their historical payment. In 2018, most of the clients able to settle the payment within due.

Liabilities

The Company has total liabilities according to the financial statements as of 31 December 2018 of THB 134.29 Million which slightly increase from THB 131.91 Million, equivalent to the increase of 1.80%, comparing to the previous year. This is due to the decrease of defer tax liabilities which decrease from THB 11.85 Million in 2017, to THB 7.76 Million in 2018 as the Company has decreasing sales revenue and Earnings before interest and tax.

As of 31 December 2018, the Company has liabilities obligation other than employee benefit which are

- Licensing agreement and consulting agreement for the usage of computer program and system for the amount of THB 1.0 Million
- Consulting agreement for financial advisor regarding the investment in Myanmar. The obligation amount according to the contract is THB 0.3 Million
- The Company might expose to the occurrence of obligation from the issuance of guarantee letter from bank against the government authorities for the amount of THB 11.0 Million

The Company has appropriate and sufficient liquidity for the payment of liabilities and obligation. In the year 2018, the Current Ratio indicated 12.94 times and the Quick Ratio of 5.45 times, while most of the current assets are in the form of inventory, including cash and cash equivalent.



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Currently, there is no file or active case of lawsuit against the Company.

Shareholder's Equity

Shareholder's equity for the company presented in the financial statement for the period ended 31 December 2018 of THB 1,424.71 Million, decrease from THB 1,443.79 Million comparing to the previous year, equivalent to the decrease of 1.32%. The major contribution to the decrease is the inappropriate retained earnings from financial performance which indicated THB 937.45 Million in 2018, comparing to THB 956.53 Million in 2017, equivalent to the decrease of 1.99%.

Cash flow and Capital Structure

In the year 2018, the Company has net cash flow paid in operation THB 66.08 Million, comparing to the cash flow received from operation THB 80.99 Million indicated in 2017 due to the decreasing revenue from sales and the appreciation of THB against USD, while the sales volume has decrease. In addition, the company spent its cash higher on the raw material purchased from farmers as the unexpected high cultivation yield. In addition, the Company has been reported THB 68.23 Million on the investing activities majorly on the repair and maintenance of building and machine, and THB 114.28 Million as the dividend payment in the year 2018.

In 2018, the Company has sufficient liquidity which evidence from the current ratio of 12.94 times, slightly decrease from 13.44 times in 2017. The major assets are current assets equivalent to 68.84% of total assets. On the other hand, the Company has only 5.32% of current liabilities which mostly consists of trade payable. There is no outstanding borrowing from the financial institution.

The Company has not engaged in any long term borrowing during the year 2018, whereas the debt to equity ratio is remain at 0.09, the same figure for the debt to equity ratio indicated previous year.



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Summary Table for Company's Financial Position

	Value (THB Million)			Increase (Decrease) %			% of Total Assets		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Current Assets									
Cash and short term investment	755.81	556.94	312.45	35.02	(26.31)	(43.90)	46.73	35.35	20.24
Trade Receivables	118.24	124.26	147.54	(11.99)	5.09	18.74	7.31	7.89	9.46
Inventory	345.07	433.55	613.17	(23.64)	25.64	41.43	21.33	27.52	39.33
Total Current Assets	1,219.12	1,114.75	1,073.17	6.38	(8.56)	(3.73)	75.37	70.75	68.84
Non-Current Assets									
Property Land and Equipment	330.29	352.72	379.02	7.97	6.79	7.46	20.42	22.39	24.31
Other Non-Current Assets	68.10	108.22	106.81	85.48	58.91	(1.30)	4.21	6.87	6.85
Total Non-Current Assets	398.39	460.94	485.83	16.28	15.70	5.40	24.63	29.25	31.16
Total Assets	1,617.52	1,575.69	1,559.00	8.66	(2.59)	(1.06)	100.00	100.00	100.00
Current Liabilities	103.52	82.97	82.96	4.83	(19.85)	(0.01)	6.40	5.27	5.32
Non-Current Liabilities	44.91	48.94	51.33	9.71	8.97	4.89	2.78	3.11	3.29
Total Liabilities	148.43	131.91	134.29	6.26	(11.13)	1.80	9.18	8.37	8.61
Shareholder's Equity	1,469.09	1,443.79	1,424.71	8.91	(1.72)	(1.32)	90.82	91.63	91.39

Please be informed accordingly

Faithfully yours,

Signed

Ankoon Pholpipattanaphong

Managing Director